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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of)	
)	
Access Charge Reform)	CC Docket No. <u>96-262</u>
)	
Price Cap Performance Review for Local)	
Exchange Carriers)	CC Docket No. 94-1
)	
Transport Rate Structure and Pricing)	CC Docket No. 91-213
)	
End User Common Line Charges)	CC Docket No. 95-72

**REPLY COMMENTS OF
MCI TELECOMMUNICATIONS CORPORATION**

I. INTRODUCTION

MCI Telecommunications Corporation ("MCI") respectfully submits these Reply Comments in response to Oppositions and Comments that were filed in the above-referenced dockets on August 18, 1997. As discussed herein, the Commission should permit IXCs to deaverage their rates to reflect variation in the PICC among study areas, clarify the adjustment of the TIC in response to geographic deaveraging, and clarify the computation of the PICC.

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II. THE COMMISSION SHOULD FORBEAR FROM ENFORCING THE GEOGRAPHIC AVERAGING REQUIREMENT FOR PER-LINE CHARGES PAID BY INTEREXCHANGE CARRIERS

WorldCom and Sprint request that the Commission reconsider the First Report and Order and forbear from enforcing Section 254(g) against IXC's with respect to recovery of PICCs and any other per-line charges paid by IXC's to LEC's.¹ Both Sprint and WorldCom correctly argue that, since charges will vary from state to state (and even from one LEC to another in a single state), it is unreasonable to expect IXC's that operate on a broader geographic basis to compete fairly with more narrowly based IXC's if they must recover their PICC costs on a nationwide averaged basis.²

The Commission must interpret the statute and any rule it enacts based thereon in a manner that accommodates both the thrust of the rule and the needs of competition. In view of the foregoing, as long as an interstate, interexchange carrier: (1) establishes standard service rates that are available to all similarly-situated customers throughout its service area; (2) implements contract-tariffs and optional calling plans (in reliance on those basic rates) that are available to all similarly-situated customers without regard to geography; and (3) is allowed to adjust its rates to address special competitive circumstances, such as competing against a carrier or carriers that do not operate on a nationwide basis, the conflict between the rate-averaging requirement and the desire for effective competition can be accommodated. Otherwise, the rate-averaging rule and pro-

¹Sprint at 5-6; WorldCom at 22.

²Id.

competitive policy goals will be irreconcilable.

III. NO EXOGENOUS INCREASES ARE REQUIRED TO DEAVERAGE TRANSPORT RATES

In the Order, the Commission concludes that the additional costs of rural transport are recovered through the TIC.³ The Commission also finds that the transport rates a LEC sets for different zones should reflect the cost differential between low- and high-density zones.⁴ Consequently, the Commission requires incumbent LECs to reallocate additional TIC amounts to facilities-based transport rates whenever they increase the differential between Zone 1 and Zone 2 or Zone 3 rates.⁵

In its comments, Ameritech supports Sprint's request that the Commission reconsider or modify this portion of the Order.⁶ Ameritech and Sprint interpret the First Report and Order as requiring a reallocation of costs from the TIC to transport rates, in the amount of the differential.⁷ Sprint and Ameritech argue further that the new rule requires them to reallocate costs in a manner that does not change the differential, because changing the differential would trigger a further reallocation. They argue that this would result in increases to high-density transport rates, contrary to the underlying

³First Report and Order at ¶226.

⁴Id. at ¶227.

⁵Id.

⁶Ameritech Comments at 7-9.

⁷See, e.g., Sprint Petition for Expedited Reconsideration and Clarification at 7.

premise of the rule. They request that the Commission either not require any costs to be removed from the TIC or, failing that, should allow these costs to be recovered in low-density rates, and should permit exogenous adjustments to low-density SBIs for that purpose.⁸

It appears that the Commission's intent was simply to require LECs to reduce the TIC whenever they increase the differential between their zone rates. For example, if a LEC increases its Zone 2 or Zone 3 DS-3 rates, it must remove an amount equivalent to the increased differential from the TIC. By contrast, under current rules, an incumbent LEC increasing Zone 2 or Zone 3 DS-3 rates would not necessarily have to reduce the TIC. If the LEC is pricing at cap, for example, it could remain below cap by decreasing the overall level of its DS-1 rates and leaving the TIC unchanged. If the LEC is pricing below cap, it may not have to adjust other trunking basket rates at all. It appears that the Commission's intent was to narrow the incumbent LECs' pricing options: under the new rule, the incumbent LECs must accompany an increase in the differential between zone rates with a TIC reduction, rather than any of the other actions that would normally be permitted by the price cap rules. Those incumbent LECs that have already deaveraged rates would be required to reduce their TIC by the amount of the existing differential. This TIC reduction would reflect the fact that the initial TIC may have been set, in part, to recover Zone 2 and Zone 3 costs, and that these costs should no longer be recovered through the TIC once geographic deaveraging has occurred.

⁸Id. at 8.

The Commission should make clear that it did not intend to permit upward adjustments to the low-density SBI upper limits. Because the Commission found in the First Report and Order that it cannot identify the amount of low-density transport costs that are in the TIC,⁹ the existing five percent band limits provide an essential safeguard against LECs reallocating an arbitrary amount of TIC revenues to Zone 2 and Zone 3 transport rates. MCI questions the underlying assumption that rural transport costs are currently recovered through the TIC, and opposes any effort to shift significant amounts of the TIC subsidy to Zone 2 and Zone 3 transport rates.

IV. PICC CALCULATION ISSUES

Several LECs address Sprint's request for reconsideration of new Section 69.153 of the Commission's rules, which prescribes the methodology for computing PICCs.¹⁰ Sprint, in its petition, suggests that 69.153 of the Commission's rules appears to base the PICC on base period revenues divided by projected loops whereas 69.152 appears to base the SLC on projected revenues divided by projected loops.¹¹

As U S West points out, however, Sprint's interpretation of the new PICC rule does not appear to be correct.¹² New Section 69.153 of the Commission's rules requires the PICC to be computed by dividing the "annual common line revenues and residual

⁹First Report and Order at ¶226.

¹⁰Id.

¹¹Sprint Petition for Expedited Reconsideration and Clarification at 6-7.

¹²U S West Comments and Opposition at 13.

interconnection charge revenues permitted under [the Commission's] price cap rules" divided by projected loops. Sprint apparently interprets the phrase "revenues permitted under [the Commission's price cap rules]" as signifying base period revenues. However, the revenues permitted under the Commission's price cap rules are the base year revenues adjusted for the change in the PCI, not unadjusted base year revenues. The use of base year revenues adjusted for the change in PCI to compute the PICCs is consistent with the current rule governing the computation of the CCL.

V. NRC WAIVER ISSUES

MCI agrees with WorldCom¹³ and Sprint¹⁴ that the NRC waiver applies not only when tandem-switched transport is replaced one-for-one by direct-trunked transport, but also when existing dedicated transport is augmented or upgraded. As Sprint points out, IXC's may order additional direct-trunked transport facilities in order to reduce the incidence of overflow to tandem-switched transport. The Commission recognized in the Order that the changes to the tandem-switched transport rate structure may cause some customers "to increase their use of direct-trunked transport relative to tandem-switched transport" (emphasis added).¹⁵ This includes not only the conversion from tandem-switched to direct-trunked transport or the disconnection of overprovisioned trunks, but

¹³WorldCom Petition for Reconsideration at 20.

¹⁴Sprint Opposition and Comments at 4-5.

¹⁵First Report and Order at ¶176.

also the installation of additional direct-trunked transport facilities. Permitting the ILECs to assess NRCs on IXCs augmenting their direct-trunked transport facilities would discourage the efficiency that the NRC waiver policy is intended to foster.

VI. THE COMMISSION SHOULD NOT PERMIT ILECS TO ASSESS MULTIPLEXING CHARGES ON USERS OF DIRECT-TRUNKED TRANSPORT

MCI opposes the suggestion of GTE¹⁶ and WorldCom¹⁷ that ILECs should be permitted to assess multiplexing charges on purchasers of direct-trunked transport. There is no basis for such charges. The assessment of multiplexing charges on users of tandem-switched transport reflects the fact that multiplexing and demultiplexing is necessary in order to switch traffic at the tandem. With direct-trunked transport, by contrast, no intermediate multiplexing and demultiplexing is required between the serving wire center and the end office.

Respectfully submitted,



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September 3, 1997

¹⁶GTE Opposition and Comments at 10.

¹⁷WorldCom Petition for Reconsideration at 18-19.

STATEMENT OF VERIFICATION

I have read the foregoing and, to the best of my knowledge, information, and belief, there is good ground to support it, and it is not interposed for delay. I verify under penalty of perjury that the foregoing is true and correct. Executed on September 3, 1997.



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CERTIFICATE OF SERVICE

I, John E. Ferguson III, do hereby certify that copies of the foregoing Reply Comments of MCI in the Matter of Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Transport Rate Structure and Pricing and End User Common Line Charges were sent, on this 3rd day of September, 1997, via first-class mail, postage pre-paid, to the following:

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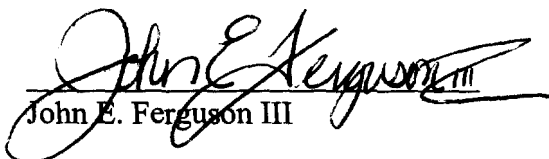
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